

Kristen Heinlein, CPA

<p>1 Q. The reserve for the Graduate 2 hospitals? 3 A. For the Graduate hospitals. 4 Q. Now, on the front page of this 5 document, it has a completed by date of 6 8-21-97. 7 A. Yes. 8 Q. Your name. 9 Based on the documents that we've 10 seen today, the issue document in particular, 11 talking about the 50 million transferred from 12 Graduate to DVOG, right? 13 A. Yes. 14 Q. Wouldn't you have known when you 15 drafted this document that the 50 million 16 reserve was already transferred to the Delaware 17 Valley Obligated Group entities? 18 A. Not necessarily. 19 Q. Why not? 20 A. I may not have been able to put two 21 and two together. I don't know or remember at 22 that point in time. 23 Q. But it's true that on June 9th you 24 drafted an issue document that discussed the 25 transfer of 50 million of reserves from</p>	<p>Page 234</p> <p>1 A. I don't know. 2 Q. I've handed the witness what we've 3 marked previously as Exhibit 4264. This is 4 another one-line summary document printed off 5 the final CLASS disk, this one titled, This is 6 Not Sufficient Documentation. 7 This document was -- review comment 8 was created by Amy Frazier on 8-7-97 and then 9 answered by you on 8-21-97, right? 10 A. Yes. 11 Q. The review comment Ms. Frazier 12 wrote, "Where have we tried to assign a basis 13 for the need to account for this at Graduate, 14 paren, i.e., why Graduate needs to establish 15 such reserves," et cetera. 16 "How are we comfortable concluding 17 on the 35 years when a portion is going to be 18 classified to PP&E, we don't know if the useful 19 lives of the fixed assets support 35 years." 20 And then let me ask you on the 21 response table where it says, "I have included 22 this information with the Graduate good will 23 entry during opening B/S procedures." 24 Right, B backslash S, balance 25 sheet?</p>
<p>1 Graduate to DVOG, right? 2 MR. STEINBERG: Object to the form. 3 I'm not sure that's what she testified to when 4 she created the issue document. 5 A. I'm looking at the document. I 6 created it June 9th. Again, it's still my 7 recollection that I created it during our 8 year-end procedures. 9 Q. But you have no argument with the 10 fact that you actually created it on June 9th? 11 A. Correct. 12 MR. STEINBERG: Object to the form. 13 Q. Right? 14 Yet on this document -- do you know 15 when the note was drafted by you, note B? 16 A. No. 17 Q. Do you recall if it was in the 18 year-end procedures of the audit? 19 A. I don't know. 20 Q. What analysis did you do to 21 determine whether or not the Graduate entities 22 needed additional bad debt reserves? 23 A. I did not do any analysis. 24 Q. Do you know if anyone at Coopers 25 did any such analysis?</p>	<p>Page 235</p> <p>1 A. Yes. 2 Q. And then, "It was concluded that we 3 should keep these two issues separate." 4 Did you draft any of the language 5 in that response? 6 A. The first paragraph. 7 Q. Is it fair to -- looking at this 8 document, does this refresh your recollection 9 at all about when you would have drafted the 10 footnote B that we saw in the previous exhibit? 11 A. No. 12 Q. Do you believe it was something 13 that was drafted in response to Miss Frazier's 14 review comment? 15 A. I don't know. 16 Q. Just to make sure you understand my 17 question, I'll try to rephrase it a little 18 different way. 19 Do you believe that your drafting 20 of footnote B came in response to Miss 21 Frazier's asking where have we tried to assign 22 the basis for a need to account for this at 23 Graduate? 24 MR. STEINBERG: Objection. Asked 25 and answered.</p>

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1 A. Again, I don't know if footnote B
 2 preceded or -- preceded this paragraph. I
 3 don't know.

4 Q. Do you know who wrote the second
 5 paragraph?

6 A. No.

7 Q. Did you have an understanding back
 8 in 1997 of what the second paragraph "it was
 9 concluded that we should keep these two issues
 10 separate" meant?

11 A. Yes.

12 Q. What's your recollection on that?

13 A. Is the Graduate good will entry was
 14 a separate entry and that the 50 million dollar
 15 transfer was a completely separate entry,
 16 separate issue.

17 Q. But at the time you wrote the
 18 Graduate good will entry footnote relating to
 19 the 50 million, you knew that the 50 million
 20 had already been transferred to DVOG, right?

21 MR. STEINBERG: Object to form.

22 A. I don't know.

23 Q. For the record, I've handed Miss
 24 Heinlein what has been marked previously as
 25 Exhibit 4123. It is a document with a working

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1 MR. TORBORG: Let me clear that up.
 2 We've had a lot of testimony on this, but let
 3 me clear it up.

4 Q. Do you recall that within the CLASS
 5 system, you could do something called a pop-up
 6 box?

7 A. Yes.

8 Q. Could you explain that for the
 9 record for me?

10 A. Sure. You would highlight
 11 something in the document and you could press a
 12 selection to use a pop-up box. Any time that
 13 you would put your cursor or put the arrow on
 14 that box, it would pop up with information
 15 behind it.

16 Q. So if we go to Bates page ending
 17 401 -- or 41, there is a pop-up box, right?

18 A. Yes.

19 Q. Go to where it says AHERF
 20 management analyzed. Are you able to determine
 21 what particular line item on this schedule that
 22 pop-up box relates to?

23 A. It looks like it appears to be some
 24 bad debt reserve for all payers line.

25 Q. That's because it came up right

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1 paper name, City Avenue Hospital, Opening
 2 Balance Sheet Analysis with a working paper
 3 reference number 0026-401.

4 It was completed by Anthony
 5 Carrabba on August 21, 1997; last completed by
 6 Christa Porter on September 10, 1997.

7 I note that Miss Heinlein is listed
 8 in the modification history portion of the
 9 document.

10 Miss Heinlein, if you could review
 11 that document for me and then I'll have some
 12 questions for you.

13 A. Okay.

14 Okay.

15 Q. First let me ask you, the fact that
 16 your name is in the modification history
 17 portion of the document, what does that mean,
 18 to the best of your knowledge?

19 A. It means I changed something on the
 20 work paper.

21 Q. Do you recall whether you drafted
 22 any of the language in this document?

23 MR. STEINBERG: Can I just ask for
 24 a clarification? The pages CL013041 through
 25 43, is that part of the original document?

1 below it?

2 A. Right below it.

3 Q. Do you have an understanding of
 4 what this document is -- the purpose of this
 5 document?

6 First, let me ask you, do you
 7 recall this document?

8 Have I asked you that?

9 A. No.

10 But, no, I don't recall this
 11 document.

12 Q. Do you recall any of the language
 13 contained in this language -- in this document,
 14 and specifically language on the pop-up box on
 15 Bates page ending 42, does that refresh your
 16 recollection at all?

17 A. No, it's the same language as
 18 footnote B on --

19 Q. On the Graduate good will entry
 20 document, right?

21 A. The good will document, yes.

22 MR. McDONOUGH: 4263.

23 THE WITNESS: Yes.

24 Q. Do you recall if you drafted this
 25 language into this document?

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<p>1 object 173 20 2 object 184 9 3 object 190 15 4 object 191 11 5 object 196 12 6 object 196 23 7 object 198 4 8 object 198 5 9 object 198 24 10 object 199 22 11 object 200 7 12 object 201 19 13 object 206 11 14 object 207 4 15 object 208 22 16 object 213 23 17 object 214 4 18 object 222 1 19 object 222 7 20 object 225 13 21 object 235 2 22 object 235 12 23 objection 237 24 24 object 238 21 25 object 246 21</p>	<p>Page 258</p> <p>1 AFFIDAVIT 2 The State of Ohio,) 3) SS: 4 County of Cuyahoga) 5 6 7 8 Before me, a Notary Public in and for 9 said County and State, personally appeared 10 KRISTEN LEE HEINLEIN, CPA, who acknowledged 11 that he/she did read his/her transcript in the 12 above-captioned matter, listed any necessary 13 corrections on the accompanying errata sheet, 14 and did sign the foregoing sworn statement and 15 that the same is his/her free act and deed. 16 In the TESTIMONY WHEREOF, I have hereunto 17 affixed my name and official seal at this 18 day of A.D 2004. 19 20 21 22 Notary Public 23 24 25 My Commission Expires:</p>
<p>1 SIGNATURE OF WITNESS 2 3 4 5 6 The deposition of KRISTEN LEE 7 HEINLEIN, CPA, taken in the matter, on the 8 date, and at the time and place set out on the 9 title page hereof. 10 It was requested that the 11 deposition be taken by the reporter and that 12 same be reduced to typewritten form. 13 It was agreed by and between 14 counsel and the parties that the Deponent will 15 read and sign the transcript of said 16 deposition. 17 18 19 20 21 22 23 24 25</p>	<p>Page 259</p> <p>1 DEPOSITION ERRATA SHEET 2 3 RE: OFFICIAL COMMITTEE OF UNSECURED 4 CREDITORS VS. 5 PRICEWATERHOUSECOOPERS, LLP 6 RRS File No.: 7472 7 Deponent: KRISTEN LEE HEINLEIN, CPA 8 Deposition Date: FEBRUARY 24, 2004 9 10 To the Reporter: 11 I have read the entire transcript of my 12 Deposition taken in the captioned matter or the 13 same has been read to me. I request that the 14 following changes be entered upon the record 15 for the reasons indicated. I have signed my 16 name to the Errata Sheet and the appropriate 17 Certificate and authorize you to attach both to 18 the original transcript. 19 20 21 22 23 24 25</p>

66 (Pages 258 to 261)

IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF PENNSYLVANIA

THE OFFICIAL COMMITTEE OF
UNSECURED CREDITORS OF
ALLEGHENY HEALTH, EDUCATION
& RESEARCH FOUNDATION,

Plaintiff, .

vs. Civil Action
PRICEWATERHOUSECOOPERS, No. 00-684
LLP,
Defendant.

Continued Videotaped Deposition of
KRISTEN LEE HEINLEIN, CPA, called for
examination under the Applicable Rules of
Federal Civil Procedure, taken before me,
Michele E. Eddy, a Registered Professional
Reporter and Notary Public in and for the State
of Ohio, pursuant to notice and stipulations of
counsel, at the offices of Jones Day, 500 Grant
Street, Suite 3100, Pittsburgh, Pennsylvania,
on Wednesday, the 25th day of February, 2004,
at 9:00 a.m.

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VOLUME II

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<p>1 A. No.</p> <p>2 Q. The M/A reserve at Mt. Sinai at</p> <p>3 3-31, again, at Bates page ending 119 of</p> <p>4 Exhibit 448, had a credit balance of</p> <p>5 \$1,915,000, right?</p> <p>6 A. Okay, m-hm.</p> <p>7 Q. And then if we look at the 6-30-97</p> <p>8 version of this schedule, Bates page ending</p> <p>9 156, the balance was a credit balance of just</p> <p>10 \$415,000, right?</p> <p>11 A. Yes.</p> <p>12 Q. Do you recall noting that during</p> <p>13 your review of the 1997 work papers, the</p> <p>14 reduction in that account?</p> <p>15 A. No.</p> <p>16 Q. So I take it you don't recall any</p> <p>17 discussions coincident with that either?</p> <p>18 A. No.</p> <p>19 Q. And the 3-31 schedule had an entry</p> <p>20 under Graduate Hospital for the Hill Burton</p> <p>21 reserve that we just looked at?</p> <p>22 A. Yes.</p> <p>23 Q. A credit balance of 1,500,000,</p> <p>24 right?</p> <p>25 A. Yes.</p>	Page 327	<p>1 Bates number PWC 015958 through 79.</p> <p>2 At the end there is a cover page</p> <p>3 that says 470, which was a cover page for the</p> <p>4 SEC exhibit. This was, again, an SEC</p> <p>5 investigative discovery exhibit.</p> <p>6 Miss Heinlein, if I could ask you</p> <p>7 to review that document.</p> <p>8 A. Okay.</p> <p>9 Q. Do you recall these documents at</p> <p>10 all?</p> <p>11 A. No.</p> <p>12 Q. Based on the format of these</p> <p>13 schedules -- and if your answer needs to be</p> <p>14 different for the various schedules, feel free</p> <p>15 to do that -- does that provide you any insight</p> <p>16 as to whether or not these schedules would have</p> <p>17 been prepared by AHERF or Coopers & Lybrand?</p> <p>18 MR. STEINBERG: Object to form.</p> <p>19 A. They look like AHERF schedules.</p> <p>20 Q. If I could ask you to go</p> <p>21 specifically to Bates page ending 73, 973.</p> <p>22 For the record, this is a schedule</p> <p>23 titled Graduate Hospital Accounts Receivable</p> <p>24 Trend Analysis. Just because I want to focus</p> <p>25 on this schedule, does the format of this</p>	Page 329
<p>1 Q. And then that particular account is</p> <p>2 not listed on the 6-30-97 lead schedule, right?</p> <p>3 A. Yes.</p> <p>4 Q. Do you recall noting the removal</p> <p>5 of -- the apparent removal of that account</p> <p>6 during your review during the 1997 audit?</p> <p>7 A. No.</p> <p>8 Q. I take it you don't recall any</p> <p>9 discussions about that?</p> <p>10 A. No.</p> <p>11 Q. I had shown you earlier as Exhibit</p> <p>12 72 that audit update agenda for August 22nd.</p> <p>13 A. Yes.</p> <p>14 Q. Under the PFMA contract, the</p> <p>15 annotation, again, was, "Reserves recorded at</p> <p>16 SDN. Legal documentation indicates that GHS is</p> <p>17 obligated transferred reserves of the books to</p> <p>18 DV."</p> <p>19 Does looking at that refresh your</p> <p>20 recollection at all about any discussions about</p> <p>21 the PFMA contract?</p> <p>22 A. No.</p> <p>23 Q. For the record, I've handed Miss</p> <p>24 Heinlein as Exhibit 4249 previously marked in</p> <p>25 this case a series of schedules that bears the</p>	Page 328	<p>1 schedule look like it was a schedule that was</p> <p>2 prepared by Coopers or AHERF?</p> <p>3 A. AHERF.</p> <p>4 Q. AHERF still.</p> <p>5 And you don't recall this schedule</p> <p>6 at all?</p> <p>7 A. No.</p> <p>8 - - - -</p> <p>9 (Thereupon, Deposition Exhibit 4332</p> <p>10 was marked for purposes of</p> <p>11 identification.)</p> <p>12 - - - -</p> <p>13 Q. For the record, what I've marked as</p> <p>14 Exhibit 4332 is a collection of account</p> <p>15 receivable related work papers for the 1997</p> <p>16 audit bearing the Bates numbers PWC 010341</p> <p>17 through 612.</p> <p>18 This was also marked as SEC</p> <p>19 investigative deposition Exhibit 330 and has --</p> <p>20 the front page indicates -- there's an</p> <p>21 annotation that I believe says patient A/R,</p> <p>22 file two of two. Whereas the exhibit we marked</p> <p>23 in Exhibit 4248 had a cover page that said</p> <p>24 patient A/R file one of two. Right?</p> <p>25 A. Yes.</p>	Page 330

<p>Page 331</p> <p>1 Q. Miss Heinlein, if you would flip 2 through this just to the extent necessary to 3 tell me whether or not you recall these various 4 work papers and audit steps. 5 MR. STEINBERG: Every work paper 6 and audit step, or -- I mean -- 7 MR. TORBORG: Let me retract that 8 question because I don't want to do that. That 9 will take too long. 10 Q. Why don't I just ask you to focus 11 on the first audit step work paper at Bates 12 page ending 342. 13 A. Okay. 14 Q. Again, this is an audit step work 15 paper in the section patient accounts 16 receivable, this one with a step name, 17 PPS-review balance sheet contractual allowance. 18 Miss Heinlein, if you could read 19 through this document. 20 I note it was completed by Miss 21 Heinlein on July 28th, 1997; last modified by 22 Christa Porter on August 6th of 1997. 23 A. Okay. 24 Q. Miss Heinlein, do you recall this 25 audit step work paper?</p>	<p>1 A. No. 2 Q. Do you recall working with anyone 3 in particular at Coopers with respect to your 4 auditing of balance sheet contractual 5 allowances? 6 A. I would have reported to Christa on 7 it. 8 Q. Do you recall any discussions with 9 Christa about the auditing in this area? 10 A. No. 11 Q. If I could ask you to flip to Bates 12 page ending 344. This is a work paper number 13 0053-5; work paper name, charge master testing. 14 A. Yes. 15 Q. Completed by you on July 24, 1997. 16 Last modified by Christa Porter, August 6, 17 1997. 18 This is a work paper that goes 19 through Bates page ending 349. 20 Take a chance to look at that. I'm 21 going to ask you more than just whether you 22 remember it on this one. 23 A. Okay. 24 Q. Can you explain to me what charge 25 master testing is?</p>
<p>Page 332</p> <p>1 A. Yes. 2 Q. Do you recall being involved in the 3 auditing of balance sheet contractual 4 allowances for the 1997 audit? 5 A. Yes. 6 Q. It was part of -- it was just 7 another element of your work in the account 8 receivables, right? 9 A. Yes. 10 Q. Do you recall that, at least at 11 AHERF, and at least my understanding at other 12 hospitals as well, there's something called a 13 balance sheet contractual allowance and then an 14 income statement contractual allowance? 15 A. Yes. 16 Q. Can you explain the difference? 17 A. I don't remember. 18 Q. Do you recall that for some 19 accounts, the contractual allowance would be 20 taken at the time the account was billed? 21 A. I really don't remember. 22 Q. Do you recall any -- do you recall 23 working with anyone in particular at AHERF with 24 respect to your auditing of contractual 25 allowances?</p>	<p>Page 334</p> <p>1 A. Again, I haven't looked at this in 2 four years, so I really don't remember. 3 Q. As you sit here today, do you have 4 an understanding of what charge master testing 5 is even though maybe you don't recall the 6 specifics of this back in 1997? 7 A. I understand the basic concept, 8 yes. 9 Q. Can you explain what that is? 10 A. Each hospital has a different 11 charge master. Basically it's -- it's 12 basically what their gross charges are for a 13 procedure. And to test it, I know that you 14 need to pull the charge masters and look at the 15 charges for the charge master. 16 Q. Does the charge master attempt to 17 identify the contractual allowance that would 18 be applied to a gross charge? 19 A. Not that I remember. 20 Q. Can you explain to me how this 21 schedule at Bates page ending 345 and going 22 through 49 works? 23 MR. STEINBERG: Object to form. 24 A. I don't specifically remember. I 25 know I went to each hospital and pulled a</p>

1 major changes from prior year."

2 The response written was, "These

3 major changes to the outpatient contractuels is

4 due to the following. During 1996, the finance

5 department had to manually contractualize more

6 payers.

7 "During 1997, three major payers

8 are now written down by the system. These

9 would include DC33, Health Partners and USHC.

10 Also, Blue Cross backslash Keystone

11 were at gross at the beginning of the year;

12 therefore, finance had to manually

13 contractualize. Then during the year the

14 system started to contractualize. However, at

15 year-end, the finance department started

16 contractualizing again because effective

17 3-01-97, Blue Cross and KHPE A/R was not

18 contractualized at time of billing.

19 "The Blue Cross reserve rate will

20 be 52 percent and the KHPE reserve rate will be

21 54 percent."

22 Miss Heinlein, can you explain to

23 me -- first of all, do you recall whether you

24 were the person who drafted this?

25 A. No.

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1 sentence in that first note, it states, "C&L

2 notes that AHERF's contractual allowances are

3 quite conservative"?

4 A. Okay.

5 Q. Do you recall what you meant by

6 that note?

7 A. No.

8 Q. No?

9 A. No.

10 Q. As you sit here today, how would

11 you interpret what you wrote back then?

12 MR. STEINBERG: Object to form.

13 A. I don't know what I wrote back

14 then. Again, I haven't dealt with contractual

15 allowances for a long time, so I can't even

16 speculate.

17 Q. So as you sit here today, you can't

18 interpret what you -- how you would interpret

19 what you meant to say as you sit here today?

20 MS. DeMASI: Can I have that back?

21 MR. TORBORG: Maybe I should just

22 restate it.

23 MS. DeMASI: That would be great.

24 Q. So as you sit here today, you can't

25 interpret what you meant with that note?

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1 Q. The last sentence that I read there

2 in the response said, "The Blue Cross reserve

3 rate will be 52 percent and the KHPE reserve

4 rate will be 54 percent."

5 Do you know where it was that

6 Coopers would have obtained those reserve

7 rates?

8 A. No.

9 Q. If I could ask you to flip back to

10 Exhibit 4253. There's a document that I

11 introduced to you -- I handed to you yesterday

12 that was the old account balance testing.

13 4253.

14 MR. TORBORG: Has everyone who

15 needs to find it found it? Or do we need to

16 wait?

17 MR. STEINBERG: I'll look off of

18 Karin's. Thanks.

19 Q. Again, Miss Heinlein, this was a

20 document that I showed to you yesterday?

21 A. Yes.

22 Q. I think you indicated the

23 handwriting on the front page is yours?

24 A. Yes.

25 Q. Under the first note, the last

1 A. Correct.

2 Q. Do you recall any discussions with

3 anyone that AHERF's contractual allowances

4 or -- let me strike that and start again.

5 Do you recall any discussions with

6 anyone else at Coopers that any of the AHERF

7 hospitals contractual allowance reserves were

8 overstated?

9 A. No.

10 Q. Or having excess contractual

11 allowances?

12 A. No.

13 Q. For the record, I've handed Miss

14 Heinlein what has been marked previously as

15 4033, which is a working paper called Interim

16 Balance Sheet Analytics, working paper

17 reference number 0103-1.

18 Miss Heinlein, if you would review

19 that document to the extent necessary to tell

20 me whether you recall the document.

21 A. No, I do not recall it.

22 Q. Let me ask you to flip with me to

23 Bates page ending 498. I'm going to read some

24 language into the record and see if it

25 refreshes your recollection about an issue, not

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<p>1 necessarily specific language.</p> <p>2 That is toward the bottom -- last</p> <p>3 paragraph on the page, some language that</p> <p>4 states, "The decrease of patient A/R relates to</p> <p>5 approximately 23 million dollars of receivables</p> <p>6 that were charged off as a valuation allowance</p> <p>7 versus a reduction to the bad debt reserve.</p> <p>8 "We do not agree with management's</p> <p>9 presentation of the valuation allowance as a</p> <p>10 component of net assets. However, this amount</p> <p>11 is presented as such for internal reporting</p> <p>12 purposes only and relates to continued aging of</p> <p>13 the accounts and contractual allowances that</p> <p>14 were misclassified as allowance for bad debts</p> <p>15 at 6-30-97.</p> <p>16 "Therefore, as analyzed in our</p> <p>17 detailed A/R subsequent event work papers, we</p> <p>18 have concluded that there would not be an</p> <p>19 impact to the reported reserves at 6-30-97.</p> <p>20 "However, a reclassification</p> <p>21 between the allowance and the contractual</p> <p>22 allowance may be warranted. C&L waives such</p> <p>23 reclassification since the amount would only</p> <p>24 affect disclosure provided on the face of the</p> <p>25 balance sheet.</p>	<p>1 Miss Heinlein, do you recall this</p> <p>2 document at all?</p> <p>3 A. No.</p> <p>4 Q. Do you recall being involved at all</p> <p>5 in attempting to identify and quantify the</p> <p>6 amount of something called out-of-period</p> <p>7 adjustments?</p> <p>8 A. No.</p> <p>9 Q. Do you have an understanding today</p> <p>10 what out-of-period adjustments means?</p> <p>11 A. No.</p> <p>12 Q. Now, you are noted as the</p> <p>13 individual who completed this document?</p> <p>14 A. Yes.</p> <p>15 Q. Do you believe that even though</p> <p>16 you're noted as the one who completed it, that</p> <p>17 you did not create the document?</p> <p>18 A. I don't remember creating this</p> <p>19 document.</p> <p>20 Q. I'm just trying to draw a contrast</p> <p>21 in that a lot of these other work papers that</p> <p>22 you looked at with account receivables is you</p> <p>23 recalled them and recall doing them.</p> <p>24 A. Right.</p> <p>25 Q. This one you don't recall?</p>

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Page 344

1 "Note, the offset of the write-off

2 of receivables that took place during the first

3 quarter of 1998 is offset by the acquisition

4 which resulted in approximately 4 million

5 dollars of net receivables."

6 Miss Heinlein, do you recall an

7 issue about AHERF recording a valuation

8 allowance with respect to miscontractuals?

9 A. No.

10 Q. At all?

11 A. No.

12 Q. For the record, I've handed Miss

13 Heinlein what's been marked previously as

14 Exhibit 4039. It is a work paper titled

15 Out-of-period Adjustments, Inpatient, working

16 paper reference number 0103-01.

17 MS. DeMASI: Dash 101.

18 MR. TORBORG: Dash 101. Thank you.

19 Q. Completed by Miss Heinlein on

20 December 7th, 1997. Last modified by Brian

21 Christian on December 9th, 1997.

22 Then there's a schedule on Bates

23 pages ending 26 through 27 that states, "AHERF

24 out-of-period adjustments, subsequent event

25 testing."

1 A. No.

2 MR. TORBORG: Why don't we take a

3 break, and when we come back I'm not going to

4 have very much.

5 MR. STEINBERG: Great.

6 THE VIDEOGRAPHER: Going off the

7 record at 11:06.

8 (Recess had.)

9 THE VIDEOGRAPHER: Going back on

10 the record at 11:16. This is tape number two.

11 - - - - -

12 (Thereupon, Deposition Exhibit 4334

13 was marked for purposes of

14 identification.)

15 - - - - -

16 Q. For the record, what I have handed

17 Miss Heinlein as Exhibit 4334 is a 1996 work

18 paper, number 0071-01, titled Accounts -- AP

19 Lead Schedule. Completed by Kristen Heinlein

20 and last modified by Craig Kocak.

21 Miss Heinlein, if you could take a

22 look at that document and let me know if you

23 recall this document.

24 A. Yes, it's the lead schedule that I

25 created.

22 (Pages 343 to 346)

			Page 367		Page 369
1	I do further certify that I am not a			1	object 284 14
2	relative, counsel or attorney for either party,			2	object 290 9
3	or otherwise interested in the event of this			3	object 290 15
4	action.			4	object 292 1
5	IN WITNESS WHEREOF, I have hereunto			5	object 295 14
6	set my hand and affixed my seal of office at			6	object 302 6
7	Cleveland, Ohio, on this day of			7	objection 302 19
8	, 2004.			8	objection 302 20
9				9	objection 303 10
10				10	object 304 19
11				11	object 306 11
12				12	object 307 2
13				13	object 314 4
14	Michele Eddy, Notary Public			14	object 320 25
15	Within and for the State of Ohio			15	object 325 12
16				16	object 329 18
17	My commission expires May 22, 2005.			17	object 334 23
18				18	objection 335 19
19				19	object 337 19
20				20	object 341 12
21				21	object 349 5
22				22	object 352 25
23				23	object 353 11
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4	KRISTEN LEE HEINLEIN			4	objection 358 24
5	BY MR. TORBORG			5	objection 361 22
6				6	object 364 17
7	Exhibit 4320 was marked	272 3		7	
8	Exhibit 4321 was marked	279 16		8	
9	Exhibit 4322 was marked	281 11		9	
10	Exhibit 4323 was marked	283 6		10	
11	Exhibits 4324 through 4328	289 14		11	
12	were marked			12	
13	Exhibit 4329 was marked	314 7		13	
14	Exhibit 4330 was marked	315 13		14	
15	Exhibit 4331 was marked	316 25		15	
16	Exhibit 4332 was marked	330 9		16	
17	Exhibit 4333 was marked	337 22		17	
18	Exhibit 4334 was marked	346 12		18	
19	Exhibit 4335 was marked	350 13		19	
20	Exhibit 4336 was marked	354 16		20	
21	Exhibit 4337 was marked	356 24		21	
22	Exhibit 4338 was marked	359 3		22	
23				23	
24	objection	268 24		24	
25	objection	269 3		25	

28 (Pages 367 to 370)

ERRATA SHEET

Official Committee of Unsecured Creditors of Allegheny Health, Education & Research Foundation v. PricewaterhouseCoopers LLP, No. 00-684 (W.D. Pa.)

Deposition of Kristen Lee Heinlein
February 24-25, 2004

I, the undersigned, do hereby certify that I have read the above-referenced deposition transcript and to the best of my knowledge, recollection and belief, said deposition transcript is true and correct, subject to the following corrections:

Page/Line	Correction	Explanation
6:6, 6:7, 6:9, 6:10, 6:11, 10:11, 12:15, 12:17, 12:18, 13:11, 13:13	Change "High Mark" to "Highmark"	Error
8:18	Change "1985" to "1995"	Error
55:15	Change "327" to "4327"	Error
67:11	Change "382" to "4382"	Error
72:23	Insert "," between "Scientific" and "PMAC"	Error
79:25	Change "Rick" to "Greg"	Error
83:18	Change "197" to "1997"	Error
111:1	Change "CL232335336" to "CL232335-336"	Error
137:19	Change "perennity" to "per entity"	Error
148:21	Change "1996" to "1997"	Error
157:16	Change "T/V" to "t/b"	Error
159:25	Add ", I did not." after "No"	Clarification
170:23	Add ", by the client." after "Yes"	Clarification
191:20	Change "4263" to "4253"	Error
192:25	Delete "Missed"	Error
210:22	Change "Kristen" to "Christa"	Error
235:5	Change "I'm" to "In" and ":" to ","	Error/ clarification
238:13	Delete "Is"	Error
280:11	Change "4320" to "4321"	Error
287:18, 288:12, 288:13, 288:25, 289:7	Change "printer" or "printed" to "prudent"	Error
299:11	Change "fluct" to "flux"	Error
322:21	Change "551" to "151"	Error

346:1	Add “, I don’t recall it.” after “No”	Clarification
360:6	Change “C,NL” to “C&L”	Error
Throughout transcript	To the extent that passages from documents were inaccurately read and/or transcribed, the documents should control over the transcription	Error

Dated: March 29, 2004


Kristen Heinlein

AFFIDAVIT

The State of Ohio,)
) SS:
County of Cuyahoga)

8 Before me, a Notary Public in and for
9 said County and State, personally appeared
10 **KRISTEN LEE HEINLEIN, CPA**, who acknowledged
11 that he/she did read his/her transcript in the
12 above-captioned matter, listed any necessary
13 corrections on the accompanying errata sheet,
14 and did sign the foregoing sworn statement and
15 that the same is his/her free act and deed.

COMMONWEALTH OF PENNSYLVANIA
Notary Public
Notary Seal
Lawrence VanAllen, Notary Public
City Of Pittsburgh, Allegheny County
My Commission Expires Nov. 3, 2007

Member, Pennsylvania Association Of Notaries

11-3-07

My Commission Expires:

In The Matter Of:

**AHERF v.
PRICEWATERHOUSECOOPERS, L.L.P**

ROBERT M. HERNANDEZ

September 3, 2003

**LEGALINK MANHATTAN
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HERNANDEZ, ROBERT M.



LEGALINK

A WORDWARE COMPANY

ROBERT M. HERNANDEZ

<p style="text-align: right;">Page 102</p> <p>1 Q. What sort of review, if any, would you 2 typically give of the Coopers & Lybrand 3 management letter and management responses? 4 A. Well, you read it and try to ascertain at 5 the -- at the meeting that the points that they 6 raised were being addressed somehow or there 7 was a good reason for them not being addressed. 8 Q. Again, you can read as much of this document as 9 you'd like to, but I'd like you to read the 10 sections at the bottom of page 2, now looking 11 at the bottom numbers, this is big page 20 -- 12 A. Got you. 13 Q. -- onto page 3 regarding accounts receivable. 14 A. Okay. 15 ----- 16 (The witness reviewed the Exhibit.) 17 ----- 18 A. Okay. I've read down through findings. Is 19 that where you wanted me to go? 20 Q. And the next section on deterioration of 21 accounts receivable aging. 22 ----- 23 (The witness reviewed the Exhibit.) 24 ----- 25 A. Okay.</p>	<p style="text-align: right;">Page 104</p> <p>1 For the record, this is the board 2 book for the audit committee of AHERF for 3 October 15th, 1996, which is one year later 4 than the previous document, and if you -- well, 5 let me ask you, again, do you recall receiving 6 this document? 7 A. No, I don't specifically recall. 8 Q. You were still on the committee at this point, 9 right, on the audit committee? 10 A. I believe so. 11 Q. If you look on the second page of it -- 12 A. Yeah, I'm listed. 13 Q. Do you have any reason to doubt that you 14 received the document? 15 A. I have no reason to doubt. 16 Q. If you go to page 13, the big numbers at the 17 top, that's where the Coopers & Lybrand 18 management letter -- 19 A. Yes. 20 Q. -- and AHERF management response for this year, 21 fiscal year '96 begins, and if you could turn 22 to page 28, it says, Status of prior year 23 observations, and then on the next page, page 24 29, it says, Accounts receivable observations? 25 A. Mm-hmm.</p>
<p style="text-align: right;">Page 103</p> <p>1 Q. Do you remember reading this at the time? 2 A. I don't. 3 Q. Do you remember in the fall of 1995 time frame 4 discussing issues about accounts receivable 5 with -- within the audit committee? 6 A. I don't. I remember discussing receivables 7 issues somewhere but, you know, foggy as to 8 when. 9 Q. Do you remember discussing it with the board, 10 full board? 11 A. Perhaps. I don't recall where it was 12 discussed. 13 Q. Can you remember what generally the substance 14 was? 15 A. Just, you know, there was a problem with 16 growing receivables balances. 17 Q. Was it something that management said? 18 A. I didn't hear the question. 19 Q. I'm sorry, was this something that management 20 told you? 21 A. I believe so, yes. I don't -- I just don't 22 remember the source of the information, type of 23 report. May have been this. 24 Q. Let me show you another document which has been 25 marked as Exhibit 168.</p>	<p style="text-align: right;">Page 105</p> <p>1 Q. Quote, As previously discussed, management 2 recognizes the unique issues surrounding 3 AHERF's accounts receivable management. Though 4 the following observations have not been 5 addressed during 1996, appropriate follow-up 6 procedures are currently in the development 7 stage, and then there are four bullet points. 8 Do you see that? 9 A. Yes. 10 Q. Do you recall any discussion in the October 11 1996 time frame at the audit committee about 12 the fact that there were certain observations 13 in the Coopers & Lybrand management letter 14 about accounts receivable that weren't 15 addressed from the prior year? 16 A. No. 17 Q. Do you recall having any concern at the time 18 that there were specific issues that hadn't 19 been addressed from the prior year's letter? 20 A. I recall discussions about the deteriorating 21 accounts receivable and hearing reports by 22 management what they were doing to enhance 23 collections and that sort of thing, but I can't 24 put a time frame on it for you. 25 Q. Were you confident that management had things</p>

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<p style="text-align: right;">Page 106</p> <p>1 under control?</p> <p>2 A. I believe that, yes.</p> <p>3 Q. You can put that document aside. I'm going to</p> <p>4 show you another document that's been marked as</p> <p>5 Exhibit 1661.</p> <p>6 This is the Allegheny Health,</p> <p>7 Education and Research Foundation audited</p> <p>8 financial statements for fiscal year 1996.</p> <p>9 Again, it's a very long document. I'm going to</p> <p>10 ask you some questions about specific parts of</p> <p>11 it, but if there is any more of it that you</p> <p>12 want to read, feel free.</p> <p>13 My first question is whether you</p> <p>14 remember seeing this document, the audited</p> <p>15 financials for fiscal year 1996?</p> <p>16 A. I don't remember the document. I'm sure I saw</p> <p>17 it at some point, but I don't remember it.</p> <p>18 Q. Assuming that this is -- that these are the</p> <p>19 actual audited financial statements for fiscal</p> <p>20 year 1996, were these presented to the audit</p> <p>21 committee?</p> <p>22 A. In the normal course of business they would</p> <p>23 have been, or a draft, probably a draft.</p> <p>24 Q. And would you review the audited financial</p> <p>25 statements or the draft that you received?</p>	<p style="text-align: right;">Page 108</p> <p>1 describe.</p> <p>2 Q. Does that have anything to do with endowment</p> <p>3 funds?</p> <p>4 A. Could be. Could be some kind of contribution.</p> <p>5 Q. Now, if you wanted to determine the operating</p> <p>6 loss for fiscal year 1996, how would you do</p> <p>7 that?</p> <p>8 A. Well, first --</p> <p>9 Q. If you can do it from this page.</p> <p>10 A. First you start with the net -- you pointed out</p> <p>11 the net loss, but three lines above is the net</p> <p>12 income before extraordinary items that changes</p> <p>13 the accounting principle of 6,547,000. You</p> <p>14 start with that, and probably the easiest way</p> <p>15 to get at that is then subtract off the</p> <p>16 investment income.</p> <p>17 That's the way I would do it. That</p> <p>18 would -- that would give me a pretty quick feel</p> <p>19 for what the operating income was, because</p> <p>20 everything else on here -- well, oh, I subtract</p> <p>21 off the 74 million from investment income,</p> <p>22 subtract that from 6 1/2 million and I'd add</p> <p>23 back the 40 million 957 of interest expense.</p> <p>24 Are you with me?</p> <p>25 Q. I think so. So what kind of number would that</p>
<p style="text-align: right;">Page 107</p> <p>1 A. At the -- oh, would I personally, yes.</p> <p>2 Q. Right. Any idea how long you'd typically spend</p> <p>3 looking at it?</p> <p>4 A. No, and it might be interrupted. It would be</p> <p>5 hard to tell you.</p> <p>6 Q. If you go to page 3, using the big numbers at</p> <p>7 the top --</p> <p>8 A. Mm-hmm.</p> <p>9 Q. -- there are a number of charts here beginning</p> <p>10 on page 3, which is the consolidated balance</p> <p>11 sheet. Actually if you go to the next page,</p> <p>12 which is page 4, you see there was a net loss</p> <p>13 there of 11,837,000?</p> <p>14 A. Yes.</p> <p>15 Q. And you see up near the top under investment</p> <p>16 income there is \$74,075,000?</p> <p>17 A. Yes.</p> <p>18 Q. And then below that it said, Net assets</p> <p>19 released from restrictions used for operations</p> <p>20 \$18,916,000?</p> <p>21 A. Yes.</p> <p>22 Q. Do you have any idea what that refers to, net</p> <p>23 assets released from restrictions used for</p> <p>24 operations?</p> <p>25 A. Not precisely, no, no more than what the words</p>	<p style="text-align: right;">Page 109</p> <p>1 leave us with?</p> <p>2 A. Well, it would be -- roughly 34 minus --</p> <p>3 roughly \$28 million operating loss, a loss from</p> <p>4 operations I should say. That's not pure.</p> <p>5 There's probably some other things here, but</p> <p>6 that will get you close.</p> <p>7 Q. Do you recall receiving these statements and</p> <p>8 determining that there was such an operating</p> <p>9 loss?</p> <p>10 A. I can't say I recall it specifically for this,</p> <p>11 but I usually made that calculation, so I, you</p> <p>12 know, I probably did.</p> <p>13 Q. Do you recall being concerned about it?</p> <p>14 A. Well, as I stated in my testimony earlier, I</p> <p>15 was and raised it with AHERF top management.</p> <p>16 Q. And they told you that the strategy was going</p> <p>17 to take care of the -- of your concern?</p> <p>18 A. I don't think that's what I said. I mean they</p> <p>19 just acknowledged that it was an issue and it</p> <p>20 would be desirable, even though, you know, as</p> <p>21 of this year we showed a profit, it would be</p> <p>22 desirable to show a profit or at least break</p> <p>23 even at the operating income level.</p> <p>24 Q. If you look at the next page, which is page 5,</p> <p>25 actually page 6, consolidated statement of cash</p>

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<p>1 previously marked as Exhibit 1676 in this case, 2 and I believe, Mr. Hernandez, that after you 3 take a look at Exhibit 1676, you will tell me 4 that you recognize it at least in form and 5 format as a copy of the minutes of the 6 Allegheny Health, Education and Research 7 Foundation audit committee and a meeting held 8 on October 15, 1996.</p> <p>9 A. Yeah, that's what it says here.</p> <p>10 Q. And, in fact, it also indicates that you were a 11 member and were present at the meeting; is that 12 right?</p> <p>13 A. That's what it indicates.</p> <p>14 Q. And is that consistent with your recollection 15 then, that you served on the audit committee at 16 least through October 15 of 1996?</p> <p>17 A. My recollection is that I wasn't at a meeting 18 in 1996, but my recollection could be wrong.</p> <p>19 Q. Okay. And have you ever known the meeting 20 minutes to be incorrect for the audit committee 21 at AHERF with respect to your attendance?</p> <p>22 A. I think they are. I think we had some from 23 1997 that indicated I was on the committee, and 24 I don't think I was.</p> <p>25 Q. And, I'm sorry, that was a board package</p>	<p>1 fall of the year?</p> <p>2 A. I just don't remember.</p> <p>3 Q. Well, it was sometime after the close of the 4 fiscal year which was in June; correct?</p> <p>5 A. So it makes sense.</p> <p>6 Q. That it would be the fall of the year?</p> <p>7 A. Yes.</p> <p>8 Q. And you knew that the audited financial 9 statements, whether in draft or final form, 10 presented to you as a board member or a 11 committee member in 1996 or 1997 for those two 12 fiscal years were the product of management and 13 had been audited by the independent auditors?</p> <p>14 A. Correct.</p> <p>15 Q. And those financial statements came with 16 typically an opinion?</p> <p>17 A. Correct.</p> <p>18 Q. And that opinion came from whom?</p> <p>19 A. The external auditors.</p> <p>20 Q. And in your time on the board, that opinion was 21 a clean opinion in the parlance of accounting; 22 is that fair to say?</p> <p>23 A. Yes.</p> <p>24 Q. And what did that mean to you?</p> <p>25 A. It meant that the auditors certified the</p>
<p>1 announcing a meeting, and I'm asking if you 2 remember that your attendance was inaccurately 3 marked to your knowledge at a meeting in the 4 minutes themselves, the official minutes?</p> <p>5 A. I don't remember that. I wouldn't -- I don't 6 think I was seeing the minutes to tell you the 7 truth because I don't think I was on the 8 committee. I'm just telling you what my 9 recollection and beliefs are.</p> <p>10 Q. That's fine. In your role as an audit 11 committee member, you did, however, receive the 12 draft or final financial -- audited financial 13 statements in an annual -- on an annual basis?</p> <p>14 MR. FRIESEN: You mean when he was on 15 the board.</p> <p>16 MR. JONES: When he was on the board 17 and when he was a member of the audit 18 committee.</p> <p>19 A. Yes.</p> <p>20 Q. And I think you've testified you reviewed them 21 when you received them?</p> <p>22 A. Yes.</p> <p>23 Q. And that was typically in the fall of the year?</p> <p>24 A. The drafts -- well, I don't recall.</p> <p>25 Q. The drafts anyway typically appeared in the</p>	<p>1 financial statements with no major exceptions. 2 There are always, you know, minor details that 3 they find during the course of the audit or 4 after the books are closed that are minor in 5 nature, but no major exceptions taken.</p> <p>6 Q. And why was it important to an enterprise like 7 AHERF when you were on its audit committee and 8 a member of its board important to have a clean 9 opinion on the financial -- audited financial 10 statements each year?</p> <p>11 A. Wow, it's important I guess for a lot of 12 reasons. I mean it -- no one can look at the 13 financial statements and trust them without 14 that. Creditors rely on them, not just 15 bondholders, but people who study, you know, 16 day-to-day credit, banks, employees so --</p> <p>17 Q. Those that might provide financing?</p> <p>18 A. Right, others that want to do business with 19 you.</p> <p>20 Q. Trade creditors for instance?</p> <p>21 A. Trade creditors, right.</p> <p>22 Q. Hospital supply organizations?</p> <p>23 A. Right.</p> <p>24 Q. Sorry?</p> <p>25 A. Yes, correct.</p>

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<p>1 Q. And you used audited financial statements 2 yourself in your oversight, in discharging your 3 oversight obligations; is that fair to say? 4 A. Yes. 5 Q. And how did you do that? 6 A. By reviewing them. 7 Q. Did they help you gauge the financial 8 performance of the enterprise? 9 MR. RESTIVO: I'm sorry, did you 10 finish your last answer? 11 THE WITNESS: Yes. 12 MR. RESTIVO: I'm sorry. 13 Q. We are all sorry. Did they help you gauge the 14 financial performance of the enterprise? 15 A. Yes. 16 MR. FRIESEN: Objection. I'm not 17 sure which one you are talking about. 18 Q. The audited financial statements presented to 19 you yearly as either a member of either the 20 audit committee or the board full? 21 A. Yes. 22 Q. And you understood that when you answered my 23 question? 24 A. Yes. 25 Q. Is it fair to say that they helped monitor the</p>	<p>Page 158</p> <p>1 know, my full-time work of course. 2 Q. And because you could only give it what you 3 gave as appropriate time to all your board 4 service but not -- it was not a full-time 5 occupation, you had to rely on others for 6 assistance in discharging your duties of 7 oversight; is that fair? 8 MR. FRIESEN: Objection. 9 A. Absolutely. 10 Q. And you relied on the auditors as a part of 11 that? 12 A. And management. 13 Q. And other outside professionals? 14 A. Occasionally, yes. 15 Q. Retained consultants from time to time? 16 A. I guess. I don't remember specifically. 17 Q. I assume that AHERF had lawyers? 18 A. Yeah, oh, sure. 19 Q. That were engaged from time to time? 20 A. Sure. 21 Q. Did you use the financial statements in your 22 review -- and you testified earlier about how 23 you did some calculations in your head or on 24 scratch paper when you would receive the 25 audited financial statements -- did you use</p>
<p>1 job management was doing with the enterprise, 2 those audited financial statements? 3 A. Yes. 4 Q. Helped you monitor? 5 A. Yes. 6 Q. And as a volunteer board member in a not -- for 7 a not-for-profit organization, you weren't a 8 full-time employee; is that fair to say? 9 A. Correct. 10 Q. You did not have the time and could not give 11 the same time to your not-for-profit board 12 service that you gave to your full-time job; 13 correct? 14 A. Correct. 15 Q. And because that's the case, you had to rely on 16 others to help provide you accurate 17 information? 18 A. Let me just say though that even though -- I 19 mean I gave the same time to this that I gave 20 to other, even my for-profit board issues. 21 Q. I'm sorry. 22 A. Those were just -- that was not a full-time 23 job, not meant to be a full-time job. 24 Q. I understand. 25 A. So I did give less time than I gave to, you</p>	<p>Page 159</p> <p>1 these financial statements to help you gauge 2 the financial performance anyway of certain of 3 the initiatives that management had undertaken, 4 hospital acquisitions, physician practice 5 acquisitions, things of that nature? 6 A. Yeah, I can't say that I tried to look at 7 specific initiatives. I usually kind of 8 gauged, you know, sort of the overall state of 9 affairs, and I recognized, still recognize 10 wherever I am, that some things are going to 11 work and some things aren't, and in general I 12 was more interested in how well the whole -- 13 the overall enterprise was going. So I don't 14 know that I spent a lot of time trying to look 15 at, you know, each individual initiative. 16 Q. But is it true -- well, strike that. 17 I'm going to ask you to look back at 18 the last exhibit you were shown, which is 19 Exhibit before the one I -- 20 A. 1676? 21 Q. I'm sorry, before the one I just showed you, 22 Exhibit 1655, which is a set of -- 23 A. Got it. 24 Q. -- minutes of the October 30, 1997 -- 25 A. Right.</p>

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<p style="text-align: right;">Page 162</p> <p>1 Q. -- AHERF board meeting. I'm going to ask you 2 to flip to big page 6. 3 MR. RESTIVO: Hold on one second. 4 MR. JONES: I'm sorry, big No. 6, 5 Exhibit 1655. 6 A. This is the -- these are the October 30, 1997 7 AHERF board of trustees' meeting. 8 MR. RESTIVO: Okay. I'm with you. 9 Q. And in those minutes you'll see, if you flip to 10 the page which has a big 6 in the upper 11 right-hand corner -- 12 A. Got it. 13 Q. -- an opening paragraph that is headed with the 14 Roman numeral V? 15 A. Right. 16 Q. And reads, Report from the audit committee? 17 A. Right. 18 Q. And there you see, I think, that what I think 19 you'll tell me is your recollection of prior 20 year AHERF board meetings in the fall, and that 21 is that the audited financial statements were 22 presented to the full board as they had been 23 presented to the audit committee immediately 24 prior. Does that -- 25 MR. FRIESEN: Objection.</p>	<p style="text-align: right;">Page 164</p> <p>1 2 testified to this -- would receive the audited 3 financial statements -- 4 A. Yes. 5 Q. -- on an annual basis? 6 A. Correct. 7 Q. And I think you already testified that the 8 audit committee obviously received the draft or 9 final audited financial statements on an annual basis as well in the fall? 10 A. Right. 11 Q. And my question is directed -- my questions now 12 are directed to those audit committee meetings 13 in the first instance. 14 The audited financial statements were 15 presented I think you said typically by 16 Mr. McConnell, the CFO of the enterprise? 17 A. I thought I said that he would be my guess, but 18 I really don't remember who presented them. 19 Q. And do you recall that the auditors were in 20 attendance at the audit committee meetings -- 21 A. I do recall that. 22 Q. -- when the financials were presented? 23 A. Yes. 24 Q. And in the person of whom, if you recall? 25 A. Certainly the engagement partner, Mr. Buettner,</p>
<p style="text-align: right;">Page 163</p> <p>1 Q. -- does that meet with your recollection? 2 MR. RESTIVO: Yeah, I think I'm going 3 to object to the form of that question and ask 4 you to break it, I think it's a compound 5 question -- 6 MR. JONES: Let me break it down. 7 MR. RESTIVO: -- and break down your 8 question into several questions. 9 MR. JONES: Let me break it down. 10 Q. I'm going to ask you to just read the paragraph 11 5 (a), Mr. Hernandez. 12 A. Okay. 13 ----- 14 (The witness reviewed the Exhibit.) 15 ----- 16 A. Okay. 17 Q. Does that refresh your recollection that indeed 18 at least in the fall of 1997 the board was 19 presented with the draft fiscal year 1997 20 audited financial statements? 21 A. Yeah, that's what it -- that's what it says. 22 Q. And you have no reason to doubt that? 23 A. I have no reason to doubt that. 24 Q. And does that also refresh your recollection 25 that the full board -- I think you've already</p>	<p style="text-align: right;">Page 165</p> <p>1 and my recollection is he had one or more 2 associates with him. 3 Q. And would he then comment on the audit process, 4 Mr. Buettner, or his colleagues in that 5 meeting? 6 A. I'm sure he did. I just don't remember. 7 Q. And you were asked about executive session 8 earlier today? 9 A. Yes. 10 Q. Do you recall that the audit committee invited 11 the auditors on its own initiative to meet with 12 it, the audit committee in executive session in 13 these meetings? 14 A. I don't recall. 15 Q. Do you recall whether any executive sessions, 16 that is meetings that included only audit 17 committee members and auditors, but not -- and 18 not management, ever took place while you were 19 on the audit committee? 20 A. I seem to have a recollection that they did, 21 but I just -- I can't -- I don't know time or 22 place. 23 Q. And whether or not such meetings took place 24 during your AHERF audit committee board 25 service, what do you understand in your board</p>

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1 service over the years and in your role as a
 2 CFO as the purpose for executive session
 3 meetings with auditors or would be the purpose?
 4 A. Well, the purpose is that when you have
 5 management present, it's awkward sometimes for
 6 the -- either the internal auditor or the
 7 external auditor to raise the, you know, an
 8 issue that they might be uncomfortable about,
 9 that might reflect on the management, and that
 10 they might not be all that certain about.

11 So this was just makes it easier to
 12 do and provide some confidentiality so that it
 13 doesn't -- you don't want to taint the -- or
 14 cause the relationship between the external
 15 auditor and management to deteriorate
 16 necessarily -- unnecessarily.

17 Q. Whether in executive session or not, during
 18 your board service at AHERF, would you have
 19 expected the auditors to share with the audit
 20 committee or the board material misstatements
 21 they found in the financial statements
 22 presented for their audit?

23 A. Yes.

24 Q. Would you have expected the auditors Coopers &
 25 Lybrand to share with the committee or the

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1 A. No. There was a meeting close to the time of
 2 the bankruptcy where it seems to me -- I don't
 3 think it was not an audit committee meeting, it
 4 was -- must have been a board meeting or an
 5 executive committee meeting, and I just don't
 6 recall, where they gave us the going-concern
 7 concern.

8 Q. The auditors shared with you their views of
 9 whether AHERF was a going concern at some
 10 point?

11 A. Right, yeah.

12 Q. Close to bankruptcy?

13 A. Yeah.

14 Q. Was it at this point the auditing firm now
 15 known as PriceWaterhouseCoopers?

16 A. It might have been. I don't remember when they
 17 merged.

18 Q. Do you know who made that -- who shared that
 19 with you?

20 A. Well, Mr. Buettner was there, and Lou Testoni
 21 who managed the Coopers office, now manages the
 22 PriceWaterhouse office was there.

23 Q. Was that a full board meeting or an executive
 24 committee meeting?

25 A. I don't recall.

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1 board whether it had -- if it had uncovered
 2 intentional misstatements in the financial
 3 statements?

4 A. Yes.

5 Q. Would you have expected Coopers & Lybrand to
 6 share with you as a committee member of the
 7 audit committee or on the board any concerns
 8 they had, the auditors had, with respect to the
 9 competence of financial management?

10 A. Yes.

11 Q. Similarly, would you have expected C & L to
 12 share with you concerns, any concerns C & L had
 13 with the integrity of financial management?

14 A. Yes.

15 Q. And lastly, would you as an audit committee
 16 member and a board member at AHERF have
 17 expected C & L to have shared with you any
 18 concerns they had that fraud might have been
 19 perpetrated by financial management or a member
 20 of the finance department at AHERF?

21 A. Yes.

22 Q. Did C & L or anybody at Coopers & Lybrand,
 23 Mr. Buettner or others, ever raise these
 24 matters with you as an audit committee member
 25 or full board committee member?

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1 Q. Do you recall how shortly before bankruptcy
 2 that meeting took place?

3 A. It was within months.

4 Q. Do you recall who was in attendance besides
 5 yourself --

6 A. No.

7 Q. -- and those two gentlemen?

8 A. No.

9 Q. Was there ever a time during your AHERF
 10 committee or board service that you came to
 11 question the accuracy of the audit financial --
 12 audited financial statements for any fiscal
 13 year for AHERF?

14 A. No -- I'm sorry, there was -- after the
 15 bankruptcy there was a restatement.

16 Q. I'm sorry?

17 A. There was a restatement after the bankruptcy.

18 Q. You recall that at least being discussed?

19 A. Yes.

20 Q. And do you recall whether it was for fiscal
 21 year 1997 or some other?

22 A. I don't recall.

23 Q. Who was involved in those discussions?

24 A. Joe Dionisio seems to me led that discussion.

25 Q. And do you recall whether those discussions you

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1 were held in audit committee or full board
 2 meetings or executive committee meetings?
 3 A. I wasn't on the audit committee, so it had to
 4 have been either the executive committee or the
 5 full board.
 6 Q. And do you recall whether representatives of
 7 PriceWaterhouseCoopers were involved in those
 8 discussions?
 9 A. I don't recall.
 10 Q. Do you recall whether restatement was actually
 11 done or whether something else was done?
 12 A. I recall it being done.
 13 Q. And do you recall the issues about which the
 14 restatements centered?
 15 A. No.
 16 Q. Or on which the restatements centered --
 17 A. No.
 18 Q. -- efforts centered?
 19 A. No.
 20 Q. If I shared with you that I think there was a
 21 public announcement made in the fall of 1998 or
 22 the late summer that was a joint announcement
 23 by the AHERF board, its management and
 24 PriceWaterhouseCoopers that no further reliance
 25 should be had on the fiscal year 1997 financial

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1 Q. Describe for the jury what it is briefly.
 2 A. Sure. It's a cover letter from Tony Sanzo to
 3 the AHERF executive staff and various --
 4 various other staff describing attached media
 5 release, and then there's a media release under
 6 the AHERF letterhead saying that AHERF was
 7 reviewing its financial statements for the year
 8 ended June 30, 1997, and was considered a
 9 restatement.
 10 Q. And, in fact, it also goes on to say that no
 11 further reliance should be placed on those
 12 1997 --
 13 A. Pending completion of their review, no further
 14 reliance should be placed on the financial
 15 statements.
 16 Q. And does that refresh your recollection,
 17 Mr. Hernandez, that a statement of this kind
 18 was, in fact, made?
 19 A. It does.
 20 Q. When that effort to determine whether a
 21 restatement of the 1997 financial statements
 22 would be made was undertaken, did you begin to
 23 question the quality of the work of the
 24 auditors for AHERF --
 25 MR. FRIESEN: Objection.

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1 statements, would that refresh your
 2 recollection that that was the way the
 3 restatement issue was resolved rather than a
 4 full restatement?
 5 MR. FRIESEN: Objection.
 6 A. Yeah, that refreshes my recollection.
 7 Q. You do now recall a no further reliance
 8 statement?
 9 A. I don't recall that, I just remember the
 10 announcement.
 11 Q. I'm going to hand you now, Mr. Hernandez, what
 12 has been marked as Exhibit 1289, ask you to
 13 review it briefly for me.
 14 ----
 15 (The witness reviewed the Exhibit.)
 16 ----

17 MR. FRIESEN: I object to this as
 18 being beyond the scope of my direct
 19 examination.

20 Q. Have you had a chance to take a look at it?
 21 A. Yes.
 22 Q. And does showing you Exhibit -- well, strike
 23 that.
 24 Can you identify Exhibit 1289 for us?
 25 A. It's -- you mean --

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1 Q. -- for any fiscal year?
 2 MR. FRIESEN: Objection.
 3 MR. RESTIVO: When you say -- object
 4 to the form of the question, unless you define
 5 what you mean when you say question. To
 6 himself? To other people? I'd ask you to
 7 refine your question.
 8 Q. Did you internally yourself start to question
 9 the quality of the work of the auditors at this
 10 time?
 11 A. I can't say that I had a refined enough
 12 knowledge to question, you know, anybody in
 13 particular. I questioned the financial
 14 statements and all -- you know, everybody
 15 involved in their preparation I guess goes with
 16 that, but I can't say, you know, I homed in on
 17 the auditors per se.
 18 Q. When you say everybody involved in the
 19 preparation, did you mean to include the
 20 auditors with management there?
 21 A. Sure, sure.
 22 Q. Did you share those concerns with anyone at the
 23 time?
 24 A. No, no. At that point everybody was pretty
 25 concerned about everything.

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1 Q. Were you involved in the discussions that led
 2 to PriceWaterhouseCoopers' disengagement from
 3 audit work for AHERF?
 4 A. No.
 5 Q. Did you ever learn about the reasons for that
 6 decision from any source?
 7 A. I believe I heard reports on that or was
 8 involved in meetings where that was discussed.
 9 I honestly don't remember what the reasons
 10 were.
 11 Q. When you first learned of the strategy to
 12 acquire physician practices as a means or a
 13 part of the means of putting together this
 14 integrated delivery system, I think you told us
 15 that you had some understanding that there
 16 would be limited -- a limited period of
 17 operating losses that would be incurred?
 18 A. I would have expected that.
 19 Q. Okay. Do you recall having formulating a
 20 conclusion about the limitation in terms of
 21 time --
 22 A. No.
 23 Q. -- how long operating losses would be incurred?
 24 A. I recall not having an understanding of that or
 25 reached any conclusions.

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1 Q. You did understand it to be finite, at some
 2 point there would be operating loss turnaround?
 3 A. An operating loss turnaround, but not
 4 necessarily an end to the losses because, you
 5 know, when you are -- when you have an
 6 integrated system, a bunch of divisions of
 7 subsidiaries all basically in the same
 8 business, it's pretty hard to tell where the
 9 profits are actually coming from.
 10 Q. And you knew there would be capital
 11 expenditures if you were going to continue to
 12 acquire practices?
 13 A. Yeah, but that's not my point.
 14 Q. I understand.
 15 A. My point is that, you know, the physician
 16 practices themselves might be costing the
 17 system money in terms of losses, but the load
 18 on the hospitals might more than make up for
 19 that, so, you know, you can't really focus too
 20 much on a particular --
 21 Q. I understand.
 22 A. -- piece of the pie.
 23 MR. JONES: I'm going to ask that our
 24 court reporter mark for us exhibit next in
 25 order.

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1 -----
 2 (Exhibit 1951 marked for identification.)
 3 -----
 4 BY MR. JONES:
 5 Q. Mr. Hernandez, we've just handed you what we've
 6 marked as Exhibit 1951, which I believe you
 7 will find to be some minutes of a July 9, 1996
 8 special meeting of the resource management
 9 committee of Allegheny General Hospital that at
 10 least the minutes reflect was attended by you.
 11 Is that what the document at least
 12 purports to be?
 13 A. Yes.
 14 Q. Do you recall attending resource management
 15 committee meetings for the Allegheny General
 16 Hospital from time to time?
 17 A. Oh, yes. I have no specific recollection of
 18 this meeting, but I have no reason to think I
 19 didn't attend it.
 20 Q. I'm going to ask you real quickly to turn to
 21 the second page of Exhibit 1951, and towards
 22 the bottom of the page, I'm going to ask you to
 23 read the last, I don't know whether that's a
 24 bullet point or a caret, but the last full
 25 paragraph of the -- of the page.

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1 -----
 2 (The witness reviewed the Exhibit.)
 3 -----
 4 Q. Have you completed that, sir?
 5 A. Yes.
 6 Q. And I'm just going to read for purposes of the
 7 record the last phrase of the paragraph reads,
 8 AIHG (the primary care physician practice plan)
 9 will break even on an operating/cash basis by
 10 fiscal year 1999 requiring only capital support
 11 in fiscal year 1999 and thereafter.
 12 Did I read that correctly?
 13 A. You did.
 14 Q. Does that refresh your recollection that from
 15 an operating cash basis there were at least
 16 projections that you were hearing from
 17 management at AGH that the AIHG program of
 18 acquiring physician practices would be at an
 19 operating or cash basis break-even point in
 20 that limited period of time?
 21 A. I don't -- it doesn't refresh my recollection.
 22 I don't recall it, but I don't deny that that's
 23 what it says.
 24 Q. Okay. You don't deny that you were being
 25 informed as a board member that the AIHG

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1 operating losses would be short-term and on the
 2 order of three or four years like this?

3 A. Yeah, that was the projection.

4 Q. You mentioned at one point the trustees
 5 discussed -- the board of trustees at AHERF
 6 discussed the large losses being incurred at
 7 AIHG. Do you recall that testimony earlier
 8 today?

9 A. Yes.

10 Q. And that ultimately the practice acquisitions
 11 were curtailed?

12 A. That's my recollection.

13 Q. If you had been informed by the management or
 14 the auditors at some point before bankruptcy
 15 that operating losses at AIHG and capital
 16 expenditures for AIHG could no longer be funded
 17 by the resources of AHERF, would that have
 18 affected how soon you might have thought about
 19 curtailing such acquisitions?

20 MR. FRIESEN: Objection, calls for
 21 speculation.

22 Q. You can answer.

23 A. I'm not even sure I understand what you are
 24 saying, could no longer be funded by.

25 Q. If there was sufficient capital within AHERF as

1 acquisition of certain hospitals that were
 2 formally affiliated with the Graduate Health
 3 System in Philadelphia took place in a number
 4 of phases?

5 A. I don't.

6 Q. Do you recall that there was an enterprise
 7 known as SDN, three initials, that initially
 8 was involved in acquiring those former Graduate
 9 hospitals before AHERF took them into its
 10 membership?

11 A. I've heard of that, and I don't know when I
 12 learned of it. I may have learned of it after
 13 the bankruptcy.

14 Q. Do you recall that there was a time period for
 15 a due diligence review of the financial
 16 operation of the Graduate hospitals during
 17 which AHERF could make a decision about whether
 18 or not to fully integrate those hospitals into
 19 AHERF as a member?

20 A. I remember that there was some due diligence
 21 time period. You know, I'm not trying to evade
 22 your question but --

23 Q. That's all I'm really asking.

24 A. -- the specifics I don't recall.

25 Q. But you do remember there was a due diligence

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1 the larger enterprise existed to fund further
 2 acquisitions or to otherwise support further
 3 operating losses at AIHG, you would have taken
 4 that into consideration in evaluating whether
 5 further acquisitions made sense?

6 MR. FRIESEN: Same objection.

7 A. Well, what you are saying is that AHERF had no
 8 more -- in your hypothetical situation, AHERF
 9 had no liquidity, yeah, I mean --

10 Q. That would have to be?

11 A. I mean that would be -- you know, there would
 12 be more than AIHG that I would be concerned
 13 about in that case.

14 Q. That's right. And what more would you have
 15 been concerned about at that point?

16 MR. FRIESEN: Calls for speculation.

17 A. Solvency.

18 Q. Solvency generally?

19 A. Well, if you are saying that there's no
 20 liquidity --

21 Q. Yes.

22 A. -- that's, you know, a pretty serious matter.

23 Q. Do you recall that the Graduate -- let me try
 24 that again.

25 Do you recall that the ultimate

1 period or opportunity --

2 A. Yes.

3 Q. -- to undo the transaction, if you will?

4 A. Yeah, or not proceed.

5 Q. Do you remember hearing about objectors to the
 6 actual acquisition of the hospitals? You were
 7 asked earlier about whether there were
 8 objectors to the process by which the board
 9 learned or was informed of the acquisition.
 10 I'm asking a slightly different question I
 11 think, which is, do you recall any board of
 12 trustee member voicing objection to the
 13 fundamental decision to acquire these
 14 additional hospitals?

15 A. No.

16 Q. You mentioned liquidity problems and solvency
 17 issues a moment ago. If AHERF had experienced
 18 liquidity problems and solvency issues or
 19 either and you were informed of same before The
 20 Graduate Hospital acquisition, would that have,
 21 in your estimation, altered your view of that
 22 acquisition?

23 MR. FRIESEN: Objection, vague,
 24 compound, and calls for speculation.

25 MR. RESTIVO: I object to the form of

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1 the question also.

2 Q. You can answer.

3 THE WITNESS: I can answer?

4 MR. RESTIVO: If you can.

5 A. If I thought that AHERF was insolvent and,
6 slash, or illiquid, I would raise questions,
7 you know, about any expenditure of funds,
8 including board retreats.

9 Q. I'm sorry, including?

10 A. Including board retreats.

11 Q. I'm going to ask you to look back at Exhibit
12 168, Mr. Hernandez, which I think at least
13 included -- well, strike that, I've got it
14 wrong.

15 THE WITNESS: While you are looking,
16 can I take a two-minute break?

17 MR. JONES: Sure, let's do that.

18 THE VIDEOGRAPHER: We are now going
19 off the record. The time is 2:26 p.m.

20 - - -

21 (There was a recess in the proceedings.)

22 - - -

23 THE VIDEOGRAPHER: We are now going
24 back on the record. The time is 3:29 p.m.

25

1 establishment and monitoring of accounts
2 receivable reserves are designed appropriately
3 and are operating effectively so as to properly
4 adjust accounts receivable balances to their
5 estimated net realizable value.

6 Have I read that right?

7 A. You have.

8 Q. What did that mean to you when you read it at
9 or about the time that you received this
10 document?

11 MR. FRIESEN: Objection, foundation.

12 Q. As an experienced reader of management letters?

13 MR. FRIESEN: Objection, foundation.

14 THE WITNESS: I can answer?

15 MR. RESTIVO: You may answer.

16 A. That -- I mean this is pretty typical wording
17 and means that the central controls, central
18 control structure is operating, you know, it
19 doesn't mean that every individual thing is 100
20 percent perfect, but to the extent that they
21 have observed it and elsewhere in here they'll
22 indicate, you know, the extent of their --
23 level of their -- their testing that things
24 were okay.

25 Q. Things were okay?

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1 BY MR. JONES:

2 Q. I think I was correct, Mr. Hernandez, in
3 directing you to Exhibit 168, which I think, if
4 you have it before you --

5 A. I do.

6 Q. -- you can confirm for me is a set of materials
7 for the audit committee and a meeting of that
8 committee on October 15, 1996?

9 A. Mm-hmm.

10 Q. Is that right?

11 A. Yes.

12 Q. I'm going to ask you to flip to the management
13 letter that you discussed earlier today, and in
14 particular page 17.

15 A. Big No. 17?

16 Q. Big No. 17 in the upper left-hand corner. It's
17 a portion, again, of the management letter for
18 fiscal year 1996; am I right?

19 A. You are.

20 Q. And I'm going to direct your attention to a
21 portion of that letter that you were not asked
22 to review in specific earlier, and that is the
23 second to last paragraph on the page, and it
24 reads, As a result of our procedures, we have
25 concluded that the controls over the

1 A. (Nodding head up and down.)

2 Q. And that was part of your -- the foundation for
3 your belief that you expressed earlier today
4 that management had accounts receivable under
5 control during this time period; is that right?

6 A. Well, I don't know that -- I don't remember if
7 I testified to that, but I didn't have a
8 feeling that it was out of control.

9 Q. You did not have a feeling that it was not
10 under control?

11 A. Correct.

12 Q. And, in fact, if this management letter had
13 read differently and had said, in so many
14 words, that management did not have in place
15 sufficient controls over accounts receivable to
16 accurately adjust them to net realizable value,
17 would that have caused you concern?

18 A. Yes.

19 Q. And why is that?

20 A. Actually I've rarely ever seen that, and as a
21 matter of fact, I don't know that I've ever
22 seen that, so it says that, you know, something
23 is out of control.

24 Q. And what is the revenue stream for hospitals,
25 the operating revenue stream?